

Message Text

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ACTION EA-06

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C O N F I D E N T I A L HONG KONG 01242

LIMDIS

NOFORN

E.O. 11652: GDS
TAGS: ENRG, ETRD, CH, HK
SUBJECT: PRC'S OIL PRICE POLICY

SUMMARY: FROM TALKS WITH HONG KONG OFFICES OF US OIL
COMPANIES IT APPEARS THAT THE PRC WILL FOLLOW INDIVIDUAL
OPEC COUNTRIES IN SETTING THEIR 1977 OIL PRICES, AT LEAST
FOR EXPORTS TO HONG KONG. THIRD QUARTER SHORFALLS OF PRC
OIL PRODUCTS SUPPLIED TO MOBIL, HK WERE LARGELY
MADE UP BY THE END OF 1976. END SUMMARY.

1. ONE US OIL COMPANY OFFICIAL TOLD CONGENOFF THAT HIS
FIRM HAD REACHED PRELIMINARY AGREEMENT ON CONTRACT WITH
CHINA RESOURCES COMPANY FOR SUPPLY OF 60-70,000 MT OF JET
FUEL TO HONG KONG. PRICING FORMULA WILL CONTINUE TO BE
BASED ON BANDAR-MAH-SHAHR (IRAN) POSTING AND WILL
ESCALATE OR FALL ACCORDING WITH IRAN-SOURCED OIL.
PRICE IS C.I.F. HONG KONG WITH FREIGHT BASED ON BANDAR-
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MAH-SHAHR HONG KONG RATES.

2. OTHER US OIL COMPANY OFFICIALS STATED THAT THEY ARE
NOW NEGOTIATING WITH CHINA RESOURCES COMPANY FOR A
SMALL QUANTITY OF LOW SULPHUR FUEL OIL FOR THE HONG KONG
MARKET. THEY EXPECT THE CONTRACT TO BASE PRICES ON RAS
TANURA (SAUDI ARABIA) POSTING, AS HAVE PREVIOUS CONTRACTS.

3. A THIRD US COMPANY WHICH BUYS PRC OIL PRODUCTS FOR HONG KONG MARKET HAS A VERY SPECILIAZED PRICING ARRANGEMENT WITH THE PRC. THIS COMPANY PROVIDES STORAGE FOR OTHER PRC OIL, AND THESE RENTAL AND SERVICE COSTS ARE FACTORED INTO A PRICE NOT BASED ON ANY PARTICULAR OPEC POSTING.

4. IF EXPECTATIONS OF LOCAL US OIL COMPANIES ARE CORRECT, IT WOULD APPEAR THAT FOR HONG KONG PRC PRICING POLICY WILL BE MIXED, NOT EXCLUSIVELY FOLLOWING THE PRICE LEAD OF EITHER OF THE OPEC FACTIONS. RAHTER PRICES WILL, AS IN THE PAST, BE BASED ON THE COUNTRY OF POSTING TO WHICH A GIVEN CONTRACT REFERS.

5. THE OIL PRODUCTS WHICH CHINA SUPPLIES THROUGH ITS HONG KONG DISTRIBUTORS, FEOSO, HAVE NOT YET INCREASED IN PRICE. LOCAL OIL COMPANY SOURCES EXPECT THAT FEOSO WILL FOLLOW PAST PRATICE, WAITING FOR SHELL, THE LOCAL PRICE LEADER, TO ANNOUNCE ITS HIKES AND THEN FOLLOW SUIT ITSELF.

6. ON RELATED MATTERS, A MOBIL (HK) OFFICIAL TOLD CONGENOFF THAT MOBIL HAS RENEWED ITS CONTRACT WITH CHINA OCEAN SHIPPING COMPANY (COSCO) TO SUPPLY 50-100,000 MTS OF BUNKER FUEL ON WORLDWIDE BASIS. THE AGREEMENT WAS REACHED IN PEKING LAST WEEK. MOBIL OFFICIAL ALSO SAID THAT THE PRC SUPPLIED MOBIL WITH SOME 160-170,000 MTS OF REFINED PRODUCTS FOR THE HONG KONG MARKET IN CONFIDENTIAL

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1976. THE SHORTFALL WHICH EXISTED IN THE THIRD QUARTER (76 HK 9188) WAS MOSTLY MADE UP, WITH DECEMBER SHIPMENTS ALONE REACHING APPROXIMATELY 20,000 MTS. THE SMALL AMOUNTS NOT SUPPLIED LAST YEAR UNDER 1976 CONTRACTS WERE SHIPPED IN JANUARY 1977.

8. THE INFORMATION IN THIS CABLE IS COMMERICALLY SENSITIVE AND SHOULD NOT BE DISCUSSED OUTSIDE THE USG. CRPSS

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